

LOCAL GOVERNMENT PROPERTY INSURANCE FUND

MINUTES OF APRIL 12, 2001 ADVISORY COMMITTEE

Members present: Terry Siikarla, Kevin Houlihan, Laura Stauffer, Don LaFontaine, Jerry Runice, Carole Charles, John Rath, Barb Wegner, Nicholas Evgendies, Harold Reckelberg, Vince Marchetti, Eileen Mallow, Danford Bubolz, Dave Marchant, Jim Trader

Jim Trader introduced Vince Marchetti and Harold Reckelberg as new members of the committee.

Barb Wegner was recognized as acting chair of the committee. Barb indicated that the agenda was in error in that Mr. William Jeppson has not resigned from the committee. Bill has stepped down temporarily as chair. At a latter date, Mr. Jeppson probably will return as chair.

Minutes of the October 11, 2000 meeting were approved as submitted.

Subcommittee reports were provided as follows:

Mission Statement Subcommittee: The subcommittee recommended that the following mission statement be adopted: "It is the mission of the Local Government Property Insurance Fund Advisory Committee to maintain an open line of communication with the Local Government Property Insurance Fund as to policyholder's interests and needs; and to provide professional expertise and input to the Local Government Property Insurance Fund Administrator and the Office of the Commissioner of Insurance of behalf of the policyholders". Motion was made, seconded and carrier to adopt the statement as presented by the subcommittee.

Reinsurance/Flood Subcommittee: John Rath indicated that the activities of this committee are being held in abeyance pending the outcome of President Bush's budget process. It is believed that President Bush's budget, subject to legislative approval, will have an impact on FEMA and its response to flood and earthquake crises.

Loss Control Subcommittee: Carole Charles indicated that members of the Advisory Committee strongly encourage the Fund to consider providing loss control services. The Committee previously recommended that the Fund consider using services offered by Arkwright Insurance but that the Fund did not respond. Dan Bubolz indicated that retaining of a firm such as Arkwright could only be done via an RFP process and that he would be interested in the subcommittee providing a frame work on which to base an RFP. Carole indicated that the subcommittee would come up with suggestions for the Advisory Committee and OCI.

Fund Web Page:

Eileen Mallow gave an overview of the Fund's web site. All financial statements, Oversight Committee minutes and Advisory Committee minutes will be on the web. Dan Bubolz indicated that valuation project forms and policies will also be on the page.

Eileen asked if the members of the Advisory Committee had any objections to their names, mailing addresses, phone numbers, and email addresses being on the site. The Committee gave its permission to include this information on the site.

John Rath indicated that he would like to see balance sheets and income statements on the site as well as the financial summaries. Dave Marchant indicated this information would be added.

Eileen Mallow asked that Committee members provide input regarding any other information that they would like to appear on the Fund's web page.

OCI Report: Recommendations for Changes to Fund's Rating Methodology:

Dan Bubolz advised the Committee that OCI's Oversight Committee OCI's recommended changes, as promulgated in the report provided to Advisory Committee members prior to this meeting, in totality. Dan provided an overview of the changes in reinsurance premiums and program and summarized by stating that the Fund collected \$17,000,000 more in claims payments than it paid in reinsurance premium over the past five years. As a result, rating changes are necessary in order to preserve the Fund's positive financial position.

The rating changes for the upcoming year include increasing rates for buildings, personal property and property in the open by 24%; raising the minimum premium from \$100 to \$200; and, increasing the minimum deductible to \$500 from \$100. OCI is recommending that in future years, the multiplier used to reduce rates below that published by Insurance Service Office (ISO) would ultimately be eliminated with the Fund providing credit to entities having good loss experience.

Members of the Advisory Committee expressed concern over the speed in which these changes are being implemented. For example, by paying higher reinsurance premiums, could the Fund continue to cede more risk to the reinsurers? Dan indicated that he has explored that possibility with reinsurance brokers who have searched the marketplace and have advised that our current program, which became effective on January 1, 2001, is the most feasible.

Other members of the Committee indicated that loss control services should be offered in some form to help offset the losses. Other committee members indicated that given the high amount of losses resulting from catastrophes, loss control would not be of great value.

Committee members indicated that our current surplus is adequate to maintain the current rates for a year until further study is completed. There was a consensus of the Committee that rate increases and other changes seem to be necessary, however, they would rather that a study, other than that completed by OCI, be done first.

The committee warned that by increasing rates, the Fund could end up with the “dead-wood”, i.e., the Fund could experience adverse selection. Eileen Mallow indicated that rate increases of 24% have been proposed in order to assist the Fund in maintaining necessary surplus and impacting the policyholders as little as possible. There was discussion regarding the increases and policy changes that commercial property carriers are implementing.

Dan Bubolz indicated that rates would continue to increase in subsequent years. However, if the Fund experienced a profit, dividends would be paid to policyholders as has been done in the past.

Laura Stauffer indicated that recommendation number 8 in the report titled “Local Government Property Insurance Fund Recommended July 1, 2001 Rate Levels” should indicate “that the maximum annual *rate* increase that may be experienced by a policyholder shall be no more than 24% increase for the first year rather than “the maximum annual *premium* increase.....”.

Eileen Mallow indicated that OCI would have an outside actuary provide input into this matter. However, in the interim, the Fund still needs to implement a rate increase.

Jim Trader was asked what financial benefit the Fund would receive by raising the minimum deductible from \$100 to \$500. Jim responded that direct paid losses would be reduced by almost \$500,000.

Dan Bubolz was asked to comment on the level of surplus recommended in OCI’s rating report. He advised that the Legislative Audit Bureau agreed that the Fund should maintain surplus equal to \$2 for every \$1 of written premium. The rationale behind this policy is that the Fund has a limited number of policyholders (about 1113), and the Fund only provides property coverages and is therefore susceptible to natural catastrophes that could quickly deplete the Fund’s surplus. The recommended change would be a switch from comparing surplus to premium to comparing surplus to insurance in force. Insurance in force has been increasing more rapidly than premium. Therefore, comparing

surplus to insurance in force more accurately depicts the Fund's exposure to loss and its ability to pay those losses.

A motion was made, seconded, and passed that:

- The Fund delay implementing its rate increase and policy changes until an actuarial study is completed.
- The Fund consider providing loss control services to its policyholders.
- A representative from the Advisory Committee sit on the Oversight Committee.
- That the text of this motion be conveyed to the Insurance Commissioner.

Eileen Mallow indicated she would discuss the Advisory Committee's motion with the Insurance Commissioner.

PML's (Probable Maximum Loss Reports):

Dan Bubolz indicated that the Department of Administration Risk Management unit recommended that the Fund inspect some of the properties of the largest four to six Fund policyholders. This inspection would be useful in determining the Probable Maximum Loss that the Fund could experience. The Fund's reinsurance limit could then be determined with this information in mind. The cost of this study would be about \$20,000. Acting chairperson Barb Wegner asked the committee if there were any objections to a study of this nature. No one objected.

Kevin Houlihan did suggest that a study of this nature may be incorporated with the actuarial study.

Appointment of New Chair and Vice Chair:

Barb Wegner will continue in her capacity of acting chair. Kevin Houlihan was elected vice-chair.

The committee determined the next meeting will be held in Madison on October 11,01.

A copy of the updated advisory committee roster will be provided to each committee member.